MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BAC 4664 – INTERNAL AUDITING

(All sections / Groups)

26 MAY 2017
9.00 a.m. to 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **THREE** pages with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Question 1

(a) You are the Chief Audit Executive in Tricia Sdn. Bhd. The company has seen tremendous growth in sales in the past five years, as a result of the introduction of a new product. The company's net profit has been high for the past five years.

As a result of this growth the Board of Directors have decided to list their company in Bursa Malaysia. The Managing Director is a strong believer in good corporate governance.

The company established an Internal Audit Department two years ago. The Managing Director is aware of the role an effective Internal Audit Department can play in helping the members of the Board of Directors to become familiar with the principles of good corporate governance. Most of the directors do not have adequate knowledge of good corporate governance.

Required:

Advise the Managing Director as to how the Internal Audit Department can assist the members of the board of directors fulfil their obligations under the principles of good corporate governance.

(12 marks)

(b) Explain the management's incentives for establishing and maintaining strong internal controls in their organisation.

(8 marks)

(Total: 20 marks)

Question 2

The accounting profession and regulatory bodies have recognised the importance of the use of audit committees. In fact, in Malaysia, the establishment of audit committee has been made mandatory for all public listed companies. Internal auditors have become increasingly involved with audit committees and consequently have become familiar with their nature and functions. In 2009, the Bursa Malaysia Listing Requirements imposed the mandatory establishment of internal audit by all public listed companies and requiring the internal auditors to report directly to the audit committee.

Required:

(a) Describe what an audit committee is.

(5 marks)

(b) Discuss the roles and functions of an audit committee.

(10 marks)

(c) Discuss the reasons why the formation of audit committee was made mandatory and name the benefits of having the audit committee in the organisation.

(5 marks)

(Total: 20 marks)

Continued....

Question 3

(a) Internal Auditing is a growing profession. Some of the recent growth can be attributed to the re-definition of "internal auditing" that has been expanded from its earlier role as company's "watch dog" to encompass a consulting role, including risk management, control assurance and compliance work, reflected by the new revised definition of "internal auditing" by the Institute of Internal Auditors. In Malaysia, the requirements by the Bursa Malaysia Listing Requirements mandate all public listed companies to establish an internal audit function in their organisation.

Required:

(i) Discuss the factors that could support the decision for the firm to have its own internal audit function or to outsource their internal audit function?

(8 marks)

(ii) Would a smaller organisation be more likely or less likely to outsource some or all of its internal audit activities? Explain.

(5 marks)

(b) In its broadest term, whistle blowing can be defined as a disclosure of unauthorised information by an employee to anyone outside the organisation.

Required:

Explain how internal auditors deal with whistle blowing in an organisation.

(7 marks)

(Total: 20 marks)

Question 4

(a) The internal audit report concludes the results of the internal audit findings and provides recommendations of the possible directions in which controls and operations could be improved. The recuperation of the internal control weaknesses based on the recommendations provided in the internal audit report is important to overcome the identified weaknesses in controls as well as to increase the adequacy, efficiency and effectiveness of the system of controls based on the risk identified.

Required:

(i) Discuss the SIX steps in preparing the internal audit report.

(4 marks)

(ii) In brief, explain SIX factors that should be considered by the internal auditors in producing a quality final internal audit report.

(6 marks)

Continued....

(b) 'Working papers document the audit. They record the information obtained and the analyses made, during the audit process.'

Required:

Explain for what purposes do Internal Auditors prepare working papers when they carry out an internal audit exercise?

(10 marks)
(Total: 20 marks)

Question 5

(a) The preliminary survey looks at the objectives of the operation and what the operation is supposed to achieve. In contrast, audit objectives are different from management's operational objectives.

Required:

Explain the key differences between audit objectives and operational objectives and provide an example to demonstrate the differences between the two.

(6 marks)

(b) The strength and the weakness of the evidence depend on how persuasive it is. Audit evidence is persuasive if it enables the internal auditor to formulate well-founded conclusions and advice confidently.

Required:

List and briefly explain the characteristics of information identified in IIA Auditing Standard that would classify the information as strong audit evidence.

(4 marks)

(c) The Institute of Internal Auditors (IIA) Auditing Standard states that members of IIA must insist that the Board of Directors should formally define the purpose, authority, and responsibilities of the internal audit activities in an audit charter. An adequate Internal Audit Charter serves as a basis or authorisation for every effective internal audit programme. An adequate charter is particularly important to define the roles and responsibilities of the internal audit department. **Discuss.**

(10 marks)
(Total: 20 marks)

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